

Message Text

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ACTION NEA-11

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C O R R E C T E D C O P Y (TEXT)

E.O. 11652: N/A
TAGS: EFIN, EG
SUBJ: PRESIDENT RETURNS TAX BILL TO PEOPLES ASSEMBLY

REF: (A) CAIRO 12396, (B) CAIRO 12482

SUMMARY: PRESIDENT DECLINES TO ACCEPT INTERIM TAX LAW
RECENTLY PASSED BY ASSEMBLY ON GROUNDS THAT SOCIAL JUSTICE
IS NOT SERVED. CONFLICT BETWEEN MEASURES DESIGNED TO THAT
END AND TO END OF PROMOTING ECONOMIC INCENTIVES IS APPARENT
BUT WE SUSPECT SADAT DID NOT REPEAT NOT RETURN MEASURE
BECAUSE OF CLOSE STUDY OF LEGISLATIVE DETAILS. GOE MAY
NOW BE FACED WITH LABOROUS PROCESS OF DEVISING COMPREHEN-
SIVE TAX REFORM. END SUMMARY.

1. PRESIDENT SADAT HAS "VETOED" RECENTLY ENACTED TAX
REFORM MEASURE (SEE REFTELS). MEETING WITH
ALEXANDRIA UNIVERSITY TEACHING STAFF MAY 28, SADAT NOTED
HE IS RETURNING TAX LAW TO PEOPLES ASSEMBLY FOR FURTHER
DISCUSSION, ALONG WITH DRAFT OF LAW REPORTEDLY PREPARED
BY TEAM OF TAX SPECIALISTS AND PROFESSORS AT ALEXANDRIA
UNIVERSITY. PRESIDENT'S STATED REASON, ACCORDING PRESS,
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IS THAT LAW DOES NOT ADDRESS QUESTION OF EQUITABLE TAX-
ATION ON HIGH-INCOME, NON-WAGE SOURCES OF EARNINGS.
STATEMENT THAT SOCIAL PEACE CAN ONLY BE ACHIEVED THROUGH
ECONOMIC JUSTICE IS ATTRIBUTED TO SADAT. (WE UNDERSTAND,
HOWEVER, THAT THIS CONCEPT ACTUALLY WAS ARTICULATED IN
QUESTION AND ANSWER SESSION BY UNIVERSITY STAFF AND THEN
PICKED UP IN HIS RESPONSE BY PRESIDENT.) HE CITED NEED

TO TAX "HIDDEN MONEY" IN ECONOMY REPRESENTED BY HIGH-RISE APARTMENT CONSTRUCTION AND MANY LUXURY GOODS AVAILABLE TO HIGH INCOME SEGMENTS OF POPULATION.

2. EDITORIALS IN AHRAH AND AKBAR MAY 29 LAUD PRESIDENT'S DECISION. BOTH BERATE THOSE WHO GAIN UNEARNED INCOME. BIG BUSINESS IS CRITICIZED FOR TAX EXEMPTIONS AND PAYMENT OF RELATIVELY SMALL AMOUNTS. AKHBAR CALLS FOR HIGHER LEVIES ON "EXTRAVAGANCE AND LUXURY."

3. TAX REFORM MEASURE WAS PASSED EARLIER IN MONTH BY OVERWHELMING PEOPLES ASSEMBLY VOTE (ONLY RIGHTIST PARTY LEADER MUIRAD VOTED AGAINST) AFTER FIFTEEN MONTHS DELIBERATION. BILL AS IT EMERGED FROM LEGISLATURE IS (OR WAS) HIGHLY TECHNICAL MEASURE AMENDING NUMEROUS TAX LAWS ON BOOKS, SOME OF WHICH GO BACK MANY YEARS IN THEIR ORIGINAL FORM. NEW TAX MEASURE, WHICH WAS DUE TO COME INTO EFFECT RETROACTIVELY FIRST OF THIS YEAR, HAS AS MAIN FEATURE RAISING TAX EXEMPTIONS ON WAGES TO LE 600 PER YEAR FOR UNMARRIED INCOME EARNERS AND LE 660 FOR MARRIED TAXPAYERS. OTHER PROVISIONS DEAL WITH INCREASING TAXATION OF REAL ESTATE AND FARM REVENUES AND INDUSTRIAL AND COMMERCIAL PROFITS. TAXES WERE DEFERRED ON CERTAIN INTEREST AND INVESTMENT EARNINGS AS INCENTIVE UNDER OPEN DOOR ECONOMIC POLICY.

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4. TAX MEASURE JUST DISAPPROVED BY PRESIDENT WAS VIEWED BY ALL CONCERNED AS INTERIM REFORM PACKAGE. MINFIN OFFICIALS HAVE TOLD US THAT THEY WERE AIMING NEXT FOR COMPREHENSIVE BILL WHICH WOULD CONSOLIDATE GREAT VARIETY OF DIFFERENT TYPES OF TAXES. TARGET DATE FOR ENACTMENT OF COMPREHENSIVE REFORM LEGISLATION WAS (OR IS) 1980.

5. DUE TO SCATTERSHOT NATURE OF NEW TAX BILL, DEALING AS IT DOES WITH NUMEROUS INDIVIDUAL TAX MEASURES, EMBASSY HAS NOT YET HAD OPPORTUNITY TO EVALUATE PORTENT OF NOW-SUSPENDED LEGISLATION. WE DOUBT SERIOUSLY THAT PRESIDENT HAS STUDIED MEASURE ANY MORE CLOSELY. OUR IMPRESSION, NONETHELESS, IS THAT BILL, WHILE TAKING CARE OF VARIOUS SPECIAL INTERESTS REPRESENTED IN PA, WAS EFFORT TO RATIONALIZE SOME ANOMALIES IN CURRENT LEGISLATION AND TO PROVIDE NUMBER OF INCENTIVES ON DOMESTIC INVESTMENT SCENE. "SOAKING THE RICH" ISSUE APPARENTLY WAS NOT DIRECTLY ADDRESSED SPECIFICALLY IN CONTEXT OF FURTHERING SOCIAL JUSTICE--OR AT LEAST NOT ADDRESSED SUFFICIENTLY IN INFORMATION ON TAX LEGISLATION MADE AVAILABLE TO EDUCATED EGYPTIANS. WE WOULD GUESS THAT SADAT USED ALEXANDRIA UNIVERSITY AS FORUM AND DEVICE OF

RETURNING BILL TO ASSEMBLY AS MEANS TO DEMONSTRATE
POLITICALLY HIS CONCERN FOR EQUITY IN ECONOMIC SYSTEM.
IT DOES NOT APPEAR PROBABLE THAT NEW TAX MEASURE IN
ACTUALITY WAS PARTICULAR SKEWED TOWARD PRIVATE SECTOR
BUSINESS INTERESTS TO EXTENT THAT MAJOR OVERHAULING ON
TECHNICAL GROUNDS IS REQUIRED.

6. NEVERTHELESS, IT IS BACK TO THE DRAWING BOARD ON
TAX REFORM IN EGYPT. PRESIDENTS INTEREST IN MEASURE
INDICATES THAT MAJOR REFORM, IMPORTANTLY INCLUDING
CONSOLIDATION OF SUNDRY LAWS, WILL BE NEXT STEP, WITH
INTERIM LEGISLATION POSSIBLY DROPPED DESPITE LENGTHY
PA. EFFECT OF PROVISIONS OF ANY NEW LAW ARE , OF
COURSE, IMPOSSIBLE OF PREDICTION AT THIS STAGE, BUT ADDED
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ATTENTION EVIDENTLY WILL BE PAID TO SOCIAL JUSTICE AS-
PECTS OF REVISED LEGISLATION. PRESUMABLY APPROPRIATE
ECONOMIC INCENTIVES IN LINE WITH ECONOMIC LIBERALIZATION
POLICIES OF GOE WILL, HOWEVER, ALSO BE BUILT INTO REVISED
LEGISLATION. MATTHEWS

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